BOOK REVIEWS AND NOTICES

The Financial Policy of Corporations. By ARTHUR STONE DEWING, Volume I, *Corporate Securities,* pp. xv+154; Volume II, *Promotion,* pp. v+173; Volume III, *The Administration of Income,* pp. iv+164; Volume IV, *Expansion,* pp. iv+234; Volume V, *Failure and Reorganization,* iv+228. New York: The Ronald Press Company, 1920.

Students of Professor Dewing's earlier works have anticipated with pleasure the appearance of a summary of the results of his researches; few, it may safely be asserted, have not found their expectations more than realized in this work. It is at the same time a clear, readable, well-balanced survey of its field and a library of source material—a rare combination indeed. The author with great skill has combined his text material with a most detailed and elaborate equipment of footnotes, into which he has emptied a voluminous notebook crammed with illustrations. Thus the general reader is relieved of the necessity of wading through the cases, while the student of special problems finds in the notes an immense compendium of factual data. The work easily takes rank as the leading publication in its field, and renders obsolete much that has been considered very good material.

Volume I presents a detailed description of all the common and of many of the rarer types of corporate securities. This, though well done, is the least valuable volume of the series, chiefly because the author of necessity treads on ground more familiar to most readers than in the later volumes, partly also because the volume apparently was written earlier than the rest and only imperfectly brought down to date. Thus, the bibliographical note on no-par stock contains no titles later than 1918, and the discussion fails to reflect the tremendous increase in popularity of this type of security within the past few years. Indeed, though a number of illustrations are given, no-par stock is treated rather as a hypothesis than as a normal type of security. Likewise the discussion fails to take account of the great growth in popularity of the business trust outside its Massachusetts home, as a substitute for incorporation. On the other hand, the chapter on

equipment trust obligations is a most valuable contribution to financial literature. The history of the device is traced from its origin in 1868, the chief legal technicalities are explained, the financial results of its use are discussed, and numerous examples of variant types are given.

Volume II, *Promotion*, covers, besides the work of the promoter, financial planning, underwriting, and the marketing of various types of securities. The three chapters on the construction of a financial plan for a new public utility, an industrial, and a railway, are particularly good.

Volume III contains an admirable discussion of the whole subject of compensation for wasting assets, and a very full discussion of dividend policies and practices. The value of the author's collection of case material is especially evident in the discussion of the latter topic.

About one-half of Volume IV is devoted to methods of combination, and the remaining chapters deal chiefly with the financing of expansion through sales of stock and bonds to bankers and to stockholders.

Volume V, *Failure and Reorganization*, deals with material of which Professor Dewing's mastery was evident long ago. As was to be expected, the volume contains less that is new than the three preceding ones, yet it is far from being a mere restatement or amplification of the conclusions reached in the earlier works. While the cases discussed in "Corporate Promotions and Reorganizations" are drawn upon freely, there is much new material, including three chapters on railroad reorganization, and the material is brought down fairly near to date. The volume was completed too early, however, to take account of the tendencies apparent in the reorganizations growing out of the depression of 1920. Receivership, therefore, already seems overstressed as compared with "voluntary" reorganization.

From minor errors and questionable generalizations the text seems remarkably free. "Potential possibilities" (II, 138) is unfortunate, and "was" is written for "were" twice in one note (IV, 226). There is an unjustified fling at life insurance companies' investment methods (IV, 184), illustrated by the case of a company whose security list on January 1, 1920, "on more than 90 per cent of the items which had been held for any length of time showed a loss over original cost." Considering the depressed state of the market for bonds at that time, no other result could have been anticipated. The test of the investment department's management must be sought in the steadiness and

adequacy of the income from these investments, not in fluctuations in their quoted value. The generalization (I, 36) that "the problem of financing an expanding business would be much more difficult were it not possible to issue bonds," is not proved by the argument advanced, "because banks, insurance companies, and investment companies will not ordinarily purchase stocks." Surely these institutions would almost necessarily become stock buyers if bonds were not to be had. The reviewer feels also that throughout the work speculative and semi-speculative securities are condemned too summarily. One almost concludes, in spite of a few lines to the contrary, that nobody ought to buy anything till it has been on the market a long time and become thoroughly seasoned. There is need for a statistical study to determine whether as a long-run policy the purchase of conservative or speculative securities yields better returns.

These are, after all, trivial flaws, and only one criticism of more serious character suggests itself. Where so much is given it seems ungracious to ask for more, yet the reviewer feels that the one outstanding weakness of the work is a sin of omission—the failure to deal at all adequately with the administration of working capital. There is a section in Volume IV on the sale of short notes to secure capital for permanent investment, and Volume III throws some light on the administration of the current finances, but there is practically nothing on budgeting, on relations with commercial banks, on the sale of notes through note brokers, on problems of finance arising from the necessity of carrying heavier inventories or accounts receivable at certain seasons of the year, or on the adjustment of finances to the swings of the business cycle. The danger of overexpansion, for example, is treated as though it were merely a question of too much investment in plant and equipment, and not of overloading with inventories in the face of a falling market or with receivables in the face of credit stringency. These problems all enter into the financial policy of corporations; a sixth volume treating them with the learning and skill displayed in these five would have rounded out the work admirably.

CHARLES O. HARDY

UNIVERSITY OF CHICAGO